C2710-2

© Entire contents copyright 1991 by Crain Communications Inc. All rights reserved.

#BXBLLBG********5-DIGIT 20814
VOZ
#040526692 5#01PI11826 99
STATISTICAL REFERENCE INDEX
4520 EAST-WEST HWY SU 800
BETHESDA MD 20814


# Pensions & Investments

The Newspaper of Corporate and Institutional Investing — $9 An Issue $135 A Year


## AT DEADLINE

### Realty gets negative return

The Russell-NCREIF Property Index posted its first negative one-year return in its 12-year history, returning −1.1% for the year ended June 30, vs. 0% for the year ended March 31.

Blake Eagle, senior vice president for real estate at Frank Russell, said he hadn't closely studied the most recent data, but noted offices and research and development properties — which comprise about half of the properties in the index — have had serious vacancy problems and falling property values.

### Southland names CFO

Frank J. Gangi has been promoted to chief financial officer of Southland Corp. from senior vice president. He will be responsible for the treasurer's, controller's, financial services, corporate planning and other departments.

### Finance exec leaves DeSoto

John "Jack" Harness, vice president-finance of DeSoto Inc., has left the company. Mr. Harness is the last of several top executives to leave DeSoto following Sutton Holding's acquisition of 9% of the stock and control of the company's board. His plans have not yet been determined.

William Spier, chief executive officer, will oversee the treasury and investor relations, as well as the $110 million pension fund.

### Lazard marketer leaves

Robert Spruill, director of marketing with W R Lazard, resigned effective Aug. 30 to become a majority shareholder with The Randolph Group, an investment sales and marketing firm. Mr. Spruill will own 51% of The Randolph Group.

*Continued on page 43*

## INSIDE

MICHAEL A. MARCOTTE

### Troubles on the road

Owners of unionized trucking companies claim financing — and even the firms' existence — could be jeopardized unless Congress restricts benefit increases at poorly funded multiemployer pension plans. Page 2.

AP/WIDE WORLD PHOTOS

**Tanks in the streets of Moscow symbolized the Soviet coup that later failed.**

# Investors reassess Russia

## Failed coup doesn't overthrow long-term prospects

**By Margaret Price**

The stunning collapse of communism in the Soviet Union and its political and economic ramifications are firing the imaginations of investors seeing at least long-term opportunities in the now-chaotic area.

But, amid the current crises, near-term investing holds little appeal for many investors.

Some direct investing deals are forging ahead in the U.S.S.R., however, partly on perceptions that political turmoil — and even the very dissolution of what has been the 15-state Soviet Union — won't halt U.S.S.R. business activities.

Thorny questions abound on everything from new national borders to currencies. But for the intrepid — such as Batterymarch Financial Management in Boston, which hopes to make its first investments in the Soviet Union this fall — the current political upheavals could prove helpful.

"The current political crisis is not affecting the economics of the enterprises" targeted for investment, said Dean LeBaron, Batterymarch's chief executive. Mr.

*See* **U.S.S.R.** *on page 39*

# Consultant witnesses history

Dennis Tito, president of Wilshire Associates, was among a group led by Batterymarch Financial Management that became an unwitting witness to history.

Some members of the group — which arrived in the Soviet Union Aug. 18 to explore investing there — climbed onto Soviet tanks the day after their arrival and skirted traffic jams on roads clogged by barricades and tanks.

Mr. Tito didn't join some members of the Batterymarch group — whom he wouldn't name — who participated in the anti-coup demonstrations. He returned to his hotel, but didn't sleep soundly. "My hotel was surrounded by a

*See* **Tito** *on page 42*

# GE caps its retiree health cost

**By Hillary Durgin**

FAIRFIELD, Conn. — General Electric Co. is capping its contributions to retiree health care at 1994 levels, which benefits consultants say could cut GE's $2.7 billion unfunded liability by 10% to 66%.

GE's maneuver, part of a major new accord with 12 of its unions, likely will soften the potential earnings impact of new accounting practices under the Financial Accounting Standards Board's Statement 106 and help the company curtail escalating health care costs.

Estimates from outside consultants were used because company officials didn't say how the cap would affect GE's liability under FASB 106. Coopers & Lybrand, GE's actuary, was not available for comment.

But Larry Cook, consultant-insurance plans at GE, did say: "The cap does impact the liability longer term."

"I would describe FASB 106 as being the driver behind the negotiations as much as I would an overall attempt on our part to manage health care costs in the future," Mr. Cook said. "The cost cap was specifically focused on and responsive to 106."

The size of any potential reduction in GE's obligation when it adopts the new accounting rule would vary based on such factors as the company's health care cost assumption, demographics and plan design features.

Under FASB 106, companies must accrue the cost of future benefit expenses rather than account for them on a pay-as-you-go basis, beginning in 1993.

By capping its contributions at 1994 levels, GE has, at least for accounting purposes, limited its

*See* **Retiree** *on page 41*

# Convertible deal victim of its own successes

**By Marlene Givant Star**

The failed coup in the Soviet Union proved an obstacle to Aegon Insurance Group's plan to broaden its U.S. investor base.

In mid-August, the company attempted to place 10% to 20% of bonds issued in a $370 million June Euroconvertible offering with American institutions. But U.S. investors, spooked by the Soviet turmoil, have been shying away from European corporate bonds. And European investors are hesitant to part with the highly rated bonds even though the convertibles are trading at a 27% premium.

"The bond is a victim of its own success in that respect," said Jerker Johansson, vice president of Morgan Stanley International, London, the lead underwriter.

Success posed a problem for Aegon's offering — the largest-ever U.S. dollar convertible offering by a foreign issuer — from the beginning.

A subsidiary of Aegon N.V., The Hague, Netherlands, the company had planned to privately place about $100 million of the $370 million with institutional investors in the United States under the Securities and Exchange Commission's rule 144a.

But European investors and European-based investment arms of U.S. institutions immediately snapped up the entire issue. That's why in mid-August, as soon as it was legally possible under Internal Revenue Service rules, the underwriters attempted to re-sell the publicly traded securities to U.S. investors in private transactions.

Even though the issue is trading at a substantial premium, few European holders wanted to sell the bonds because they are AA rated with attractive terms. And what bonds the underwriters found in the market were richly priced.

Morgan Stanley officials are confident U.S. demand for the bonds will pick up as soon as the dust surrounding the failed Soviet coup settles.

The informal secondary offering would have been a welcome sight in the U.S. market. There is strong demand for convertibles as many are being redeemed or converted, causing the supply in the market to shrink.

Lynch & Mayer Inc., New York, which manages the $100 million Lincoln National Convertible Securities Fund, looked at the securities two weeks ago when they were priced at 106 for a current yield of 6.6%, representing a 30% premium. The firm passed. At presstime, the securities were

*See* **Aegon** *on page 43*

## NEWS DIGEST

RICHARD STERGULZ

**The Financial Accounting Standards Board's upcoming draft on fair valuation for accounting of GIC products could turn into a circus for defined contribution plan sponsors. Page 18.**

**BARRA, the well-regarded** consulting firm, plans to go public with a 1.5 million-share offering that could raise as much as $8.5 million. Page 4.

SPECIAL REPORT: DATA BASES AND SOFTWARE

***Pensions & Investments* profiles computer** products created to help plan sponsors. Page 21.

CASH MANAGEMENT

**Corporate treasury managers are** paying more attention to bank relations, a *P&I* survey shows. Page 34.

FINANCING

**Aegon Insurance Group's plan** to broaden its U.S. investor base is hindered by the U.S.S.R. turmoil. Page 1.

INTERNATIONAL

**American investors see long-term** opportunities in the wake of the failed Soviet coup. Page 1.

**The scandals in Japan** haven't deterred many investors, although Nomura Capital has met with clients to address their concerns. Page 3.

REAL ESTATE

**Only the most sophisticated** pension funds seem to be taking advantage of rock-bottom property prices. Page 2.

## DEPARTMENTS


| | | | |
|---|---|---|---|
| Classified | 40 | Letters | 18 |
| Commentary | 18 | Opinion | 16 |
| From the editor | 16 | People | 32 |
| Frontlines | 8 | Statistically speaking | 14 |
| Hirings | 37 | Valuation index | 8 |


Vol. 19, No. 19 — Pensions & Investments (ISSN 1050-4974) is published biweekly with a special edition in May by Crain Communications, Inc., 740 Rush St., Chicago, Ill. 60611-2590. Second class postage paid at Chicago, Ill. and at additional mailing offices. Postmaster: Send address changes to Pensions & Investments, Circulation Dept. 965 E. Jefferson, Detroit, Mich. 48207.

# Few investors bottom-fish

## Only big public plans buying despite low realty prices

**By Steve Hemmerick**

Property prices are hitting bottom in some markets, but only a few of the more sophisticated pension funds are making offers to buy the reduced-price real estate, some money managers say.

One investor in the market is the $11 billion Los Angeles County Employees' Retirement Association, which has up to $100 million to invest with The RREEF Funds, San Francisco, in a separate account.

Keith Geddis, a senior investment officer at the fund, said it is negotiating to buy five warehouses for a total of about $30 million in Southern California. In 1992, the fund will be hiring more separate account managers and will become a major player in real estate investment, he said.

The $65 billion California Public Employees' Retirement System will have invested about $500 million in real estate by the end this year, said Roger Franz, a mortgage investment officer with the fund.

"I think the market must be breaking," said Paul Sack, a RREEF principal. He said it's as "if everybody who wanted to sell property decided this year they would sell."

Today's pension real estate investors are only the "largest" and "most savvy" investors, said Andy Smith, president of Lehndorff & Babson Real Estate Counsel, Dallas. In addition, he said buying today is "client driven," and pension funds won't invest in a property unless the seller meets their criteria exactly.

Pension investors in real estate today are primarily domestic public pension funds and Euro-

*See* **Realty** *on page 43*

**Paul Sack says RREEF has more properties under contract now than ever before.**

# PosTel sees a ripened Europe

## Firm urges caution; big fees cut returns

**By Marlene Givant Star**

LONDON — PosTel Investment Management Ltd., a pioneer among global private equity investors, is setting its sights on Europe, where it sees alluring opportunities but poorly structured investment vehicles.

PosTel was formed in 1983 from the investment management team of the Post Office Staff Superannuation Fund, when the fund split to become the Post Office and the British Telecommunications staff superannuation schemes. It is wholly owned by both funds and manages $33 billion, representing the bulk of their assets.

The firm has 180 million pounds, about $297 million, worldwide in commitments to venture capital and management buy-out funds; an additional 21 million pounds ($34.65 million) in unquoted companies and more than 60 million pounds ($99 million) in private financial service companies.

PosTel is exercising special caution in choosing European investments, said John Brakell, senior manager. He is one of two full-time professionals devoted to private equity investments from early stage venture capital to buy-outs.

That's because the European banks that offer limited partnerships charge high management fees and do not take into account the time value of money in the structuring of terms and conditions, he said. As a result, returns to an investor may be slashed by more than 50%.

The private equity business on the Continent is very much driven by fees. That is "not a healthy thing. . . . Bank-sponsored funds fees are such that they can destroy investors' returns," Mr. Brakell said.

The structuring of funds is another key consideration.

"We're only making commitments to good managers who accept the long-term implications of the terms and conditions," he said. PosTel believes priority should be to investors before the general partners.

PosTel is not alone in its crusade. An informal group of institutional investor$, pension funds, insurance companies and managers of managers, called the Venture Investors Circle, London, is addressing these concerns.

Although in the United States the top management fee is 2%,

*See* **PosTel** *on page 41*

# Funding flap roils truckers

**By Joel Chernoff**

WASHINGTON — Unionized trucking firms, hard hit by recession and changing industry economics, are pushing Congress to force multiemployer plans toward fuller funding by limiting poorly funded plans' ability to increase benefits.

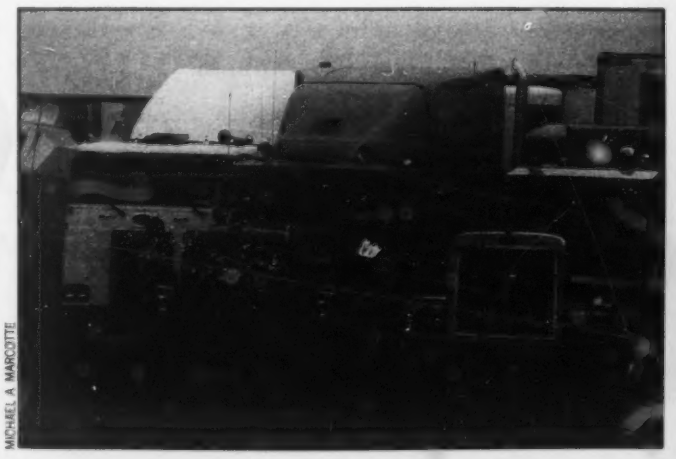
Multiemployer fund officials are crying foul, saying employers are merely trying to create an escape route from their collective bargaining agreements and pension obligations.

The MPPAA Solvency Coalition, a group of 241 employers in the trucking, construction and stevedoring industries, say huge unfunded liabilities of numerous multiemployer plans threaten some of their firms' ability to obtain financing and, ultimately, some companies' very existence.

In addition, they claim the Pension Benefit Guaranty Corp., which backstops these plans in the case of failure, has been complacent in regulating the plans. The group said the PBGC's data are so faulty no one has a clear picture as to how well funded the plans are.

"Underfunding threatens the financial stability of the pension system and the contributing employers who remain in multiemployer pension plans," Richard Damsel, chairman and chief executive officer of Leaseway Transportation Corp., Cleveland, told

*See* **Truckers** *on page 40*



MICHAEL A. MARCOTTE

**Trucking companies and pension officials are polarized by a dispute over the funding of multiemployer plans.**

CASH MANAGEMENT

## Short-term managers stung by lower interest rates

■ Declining interest rates and a steepening yield curve hurt the returns of short-term investment managers, according to the Yanni-Bilkey CA$H universe.

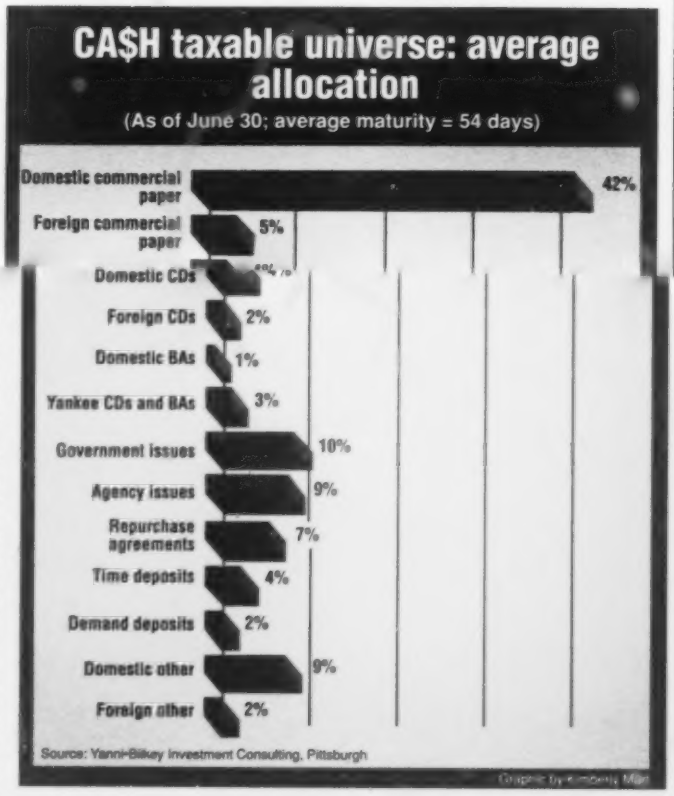
The CA$H universe median short-term manager returned 6.33% for the second quarter, compared with 7.25% during the first quarter. The CA$H return decline mirrored the trend in short-term Treasury bills, which stood at 5.93% at the end of the first quarter and 5.71% at the end of June.

The CA$H universe consists of 240 institutional short-term portfolios managed by 125 asset managers and represents $200 billion in assets. The CA$H universe is compiled by Yanni-Bilkey Investment Consulting, Pittsburgh.

Several factors combined to drive down short-term returns, including a continued Federal Reserve easing and the lowering of the discount rate, according to Bob Beck, director of institutional marketing. In addition, he said, economic news during the quarter offered mixed signals about the direction of the economy.

The average maturity of the CA$H universe increased to 54 days from 45 days at the end of the first quarter as managers moved further out on the yield curve to improve returns.

*— Fred Williams*




REAL ESTATE

## Barclays establishes advisory unit

■ Barclays Business Credit, an experienced senior lender, has established a subsidiary — Barclays Advisory Service — to help other institutions invest in commercial real estate properties.

Barclays Advisory Service will provide lenders with a broad range of services, including analysis of cash flow and asset values, field examinations, appraisals, workouts and real estate portfolio management and space needs analysis.

With the downturn in the economy as a whole and the real estate market in particular, Barclays Business Credit officials sensed there were other lending institutions in need of a fresh, objective approach to their portfolios, said Sandra D. Hanson, senior vice president and manager of the real estate marketing group at the firm.

*— Lori Miller*

WASHINGTON

## Legislation drawing harsh rebuke

■ The Pension Benefit Guaranty Corp. would have to pay pensions to retirees who lost their vested benefits prior to ERISA under a bill passed by the Senate Labor Committee, but the move has drawn the threat of a veto.

On July 17, the Senate Labor panel attached S. 351, the Pension Restoration Act of 1991, to the Older Americans Act, despite Secretary of Labor Lynn Martin's warning she would urge President Bush to veto the legislation. The Older Americans Act may come up for a vote on the Senate floor in September.

In a letter to Sen. Edward Kennedy, D-Mass., chairman of the Senate Labor Committee, Ms. Martin noted the bill would add up to $500 million to the PBGC's deficit, which is around $2 billion.

She also argued the bill employed "budget gimmickry" by forcing the PBGC to pay out benefits from its trust fund investments, and that it would establish a dangerous precedent by covering workers without a financing mechanism.

The bill, colloquially known as the "Pension Losers Bill," has been pushed in Congress for more than a decade. Since the 1974 Employee Retirement Income Security Act was passed, the number of eligible to receive benefits under the bill has declined about 46,000 from 115,000, according to a statement by Sen. Howard Metzenbaum, D-Ohio, who introduced the measure earlier this year.

Under the bill, these retirees would get an annual benefit equal to $75 a year for each year they had participated in a plan.

*— Joel Chernoff*

**Lynn Martin wants the president to veto pension legislation passed by a Senate panel.**

FINANCING

## DLJ going to pension fund trough

■ Donaldson, Lufkin & Jenrette Securities Corp. plans to raise $1 billion — mainly from state and corporate pension funds — in its first merchant banking limited partnership fund.

As fewer leveraged buy-out firms and investment banks have strong enough track records to raise new merchant banking funds, DLJ is stepping up to the plate, capitalizing on the success of its own $250 million merchant banking portfolio.

That portfolio has racked up annualized returns of more than 100% for the six years ended Dec. 31.

The fund, which will invest in friendly deals in the $200 million to $500 million range, is unusual in that it will not charge a management fee.

Instead, the firm will invest $200 million of its own capital alongside the $1 billion raised from outside investors.

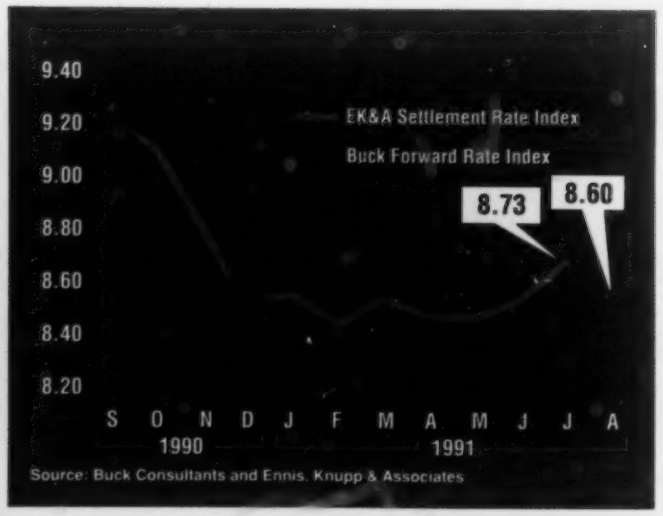
This will be the first time DLJ has gone to the pension fund market.

In addition to being targeted to state and corporate pension funds here and abroad, the fund will be marketed to insurance companies by DLJ officials.

The merchant banking fund will supply both equity and mezzanine financing for buy-outs, recapitalizations and restructurings. The merchant fund will not provide bridge loans; DLJ has a separate $1.25 billion bridge loan fund.

DLJ plans to close the fund in the fall.

*— Marlene Givant Star*




INVESTING

## Bankruptcy pays huge dividends in 1st half of '91

■ Junk bonds performed swimmingly in the first half of 1991 and so did small-cap stocks. But investors could have more than doubled their money during the period through June 27 by buying and holding bankruptcy notes listed on the New York Stock Exchange.

The down-and-out stocks returned 133.6% during the nearly six-month period, according to The Turnaround Letter, a publication of New Generation Research Inc., Boston.

"If you had bought every NYSE-listed bankruptcy stock on Dec. 31 at the published closing price, your portfolio would be up more than 130% through late June," according to the newsletter.

Although the numbers are not adjusted to reflect commissions and bid/ask spreads, they are still extraordinary.

By contrast, a more risk-averse investor could have earned 27.4% by investing in the NASDAQ Composite over the same time period.

Investors also could have earned a 20.4% return investing in junk bonds during the period, as measured by the Merrill Lynch High Yield Bond Average.

For those investors who did enjoy the run-up in bankruptcy stocks, now is the time to take the money and run, the newsletter advised.

"There is little or no ultimate value in most of these stocks and when the speculative fervor that has propelled them subsides, they are likely to come crashing down."

*— Marlene Givant Star*

DEFINED CONTRIBUTION PLANS

## S&P going for new type of quotes

■ Standard & Poor's Corp., known for its oft-quoted stock indexes, is now trying to make a name for itself in the defined contribution business.

The firm isn't hopping on the bandwagon and offering mutual funds, record-keeping or administrative services. Instead, it's serving up "Your Financial Future," a newsletter designed to help 401(k) participants save better for retirement.

"With the shift to the individualistic nature of defined contribution plans comes the responsibility to educate the participants about their investments," said David Blitzer, vice president and chief economist. "So far it hasn't been done."

The newsletter, begun in June, is designed for quarterly publication but can be customized to a corporation's specifications, according to Rob Meyncke, director of new product development. It can be sent hard copy, with or without company logo, included in plan participants' quarterly statements or blipped electronically into computers.

The men said they think the product has a market among the many employers who want to help their employees make informed decisions about investment options with information that doesn't come from the investment companies themselves.

*— Curtis Vosti*

**Standard & Poor's hopes to grab readers with its newsletter.**

BENEFITS

## Employees pay record amount for health care in '90

■ Employees paid more for health care in 1990 than ever before, a survey of 560 major employers by Hewitt Associates shows.

Rising health care costs have led employers to increase the use of front-end deductibles for hospital charges and to increase the cost of individual deductibles for all services, leaving employees saddled with increased financial responsibilities.

Employers using front-end deductibles increased to 73% in 1990 from 59% in 1985.

Companies with individual deductibles of $200 or more rose to 40% from 18% in 1985. Only 23% of employers in 1990 had a deductible of $100 or less, down from 52% in 1985.

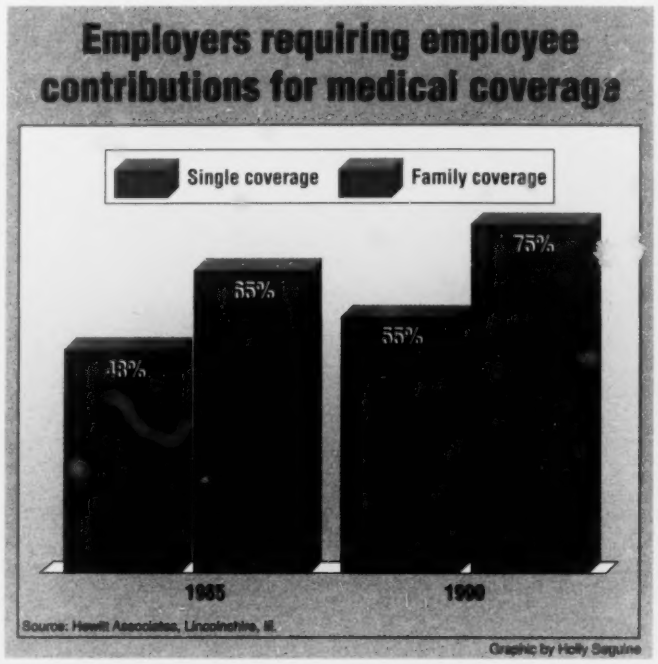
In addition, fewer health care plans (34% in 1990 vs. 51% in 1985) cover total hospital room and board charges and surgical expenses.

Meanwhile, the percentage of plans that cover 80% of room and board costs increased to 51% from 36%.

And only 18% of the plans covered total surgical expenses in 1990, vs. 23% in 1985.

The use of "stop-loss" features (which provide 100% of expenses after a pre-determined maximum of out-of-pocket expenses) increased to 94% from 89% during the past five years. But the outlay expected from employees also increased: 50% of employers held the stop-loss limit at $1,000 or less in 1990 compared to 69% in 1985.

*— Lori Miller*




INSURERS

## Mutual fund has rebalancing option

■ Security Benefit Life Insurance Co., Topeka, Kan., has added a reallocation option to its Variflex Variable Annuity mutual fund product.

Investors allocating assets among the product's seven options now will have their assets automatically reallocated every 90 days to bring investments back in line with target mixes.

The insurer also recently added two options to the product's array of investment choices, which include growth, income growth, high-grade income and money market series.

The Worldwide Equity Series, investing in domestic and foreign equities, was introduced to satisfy investor demands for global market opportunities. It is replacing the High Yield Series, which invested in junk bonds and had little potential for long-term growth.

The Social Awareness Series also has been added for investors who want to respond to the growing social consciousness. Taboo investments include companies involved in producing nuclear energy, manufacturing weapon systems and those that do business in South Africa or are known industrial polluters.

*— Lori Miller*

PENSION FUNDS

## Assets of private plans jump 8.6%

■ The assets of private non-insured pension plans increased 8.6% during the first quarter to $1.443 trillion, the Employee Benefit Research Institute said.

The funds experienced net capital gains of $138 billion in the quarter from favorable stock and bond markets. Dividends and interest added $19 billion. Plan sponsors, however, withdrew $43 billion from the funds in the quarter.

Single-employer defined benefit plans account for 57.6% of private non-insured pension assets; single-employer defined contribution plans, 31.87%; and multiemployer plans, the balance.

Total equity investments for private non-insured plans were 51.2% of assets as of March 31, up from 46.9% at the end of 1990, while total bond investments decreased to 21.1% from 22.2% in the same period. Cash totaled 9%; all other asset classes totaled 18.7%.

*— Mike Clowes*

REAL ESTATE

## Ravitch named to AFL-CIO post

■ Richard Ravitch, the prominent New York City builder and civic leader, has been elected chairman of the AFL-CIO's Housing Investment Trust and named chairman of its Building Investment Trust.

Both trusts invest in union-built construction projects, primarily on behalf of union pension funds. The Housing Investment Trust, with assets of $400 million, invests in home mortgages, while the Building Investment Trust, with assets of $115 million, invests in commercial properties.

Mr. Ravitch is noted for turning around the finances of both the Metropolitan Transit Authority in New York and the New York State Urban Development Corp. He served as chairman for both groups.

Mr. Ravitch also has been responsible for the construction of more than 50,000 union-built multifamily apartments in the United States and Puerto Rico as chairman of HRH Construction Corp., New York.

*— Joel Chernoff*

**Richard Ravitch is the new chairman of the AFL-CIO trusts.**

INVESTING

## Unions still sticking fast with GICs

■ Guaranteed investment contracts issued by insurance companies remain popular with some, despite the well-publicized financial troubles of a few issuers.

The joint labor/management pooled GIC fund of the International Brotherhood of Electrical Workers and the National Electrical Contractors Association has topped $300 million in less than three years. Begun in August 1988, the first-of-its-kind-industry-specific joint labor/management pooled GIC fund has grown from an initial $70 million.

In addition to the international union, 34 IBEW locals have invested in the fund. And last year, the guidelines were amended to allow any NECA chapter or member company the opportunity to join. Two have signed up so far.

According to Jack Moore, international secretary of the IBEW, the success of the fund has been due to the management of Morley Capital Management Inc., Lake Oswego, Ore., and a concentration on safety through diversification.

The fund uses 20 different issuers, and none is more than 8% of the total fund, according to Morley's Terry Hannon.

"Even if we had one of the troubled issuers — which we don't — the fund wouldn't have been hurt bad because of the diversification."

*— Curtis Vosti*

WASHINGTON

## Senators get bonus with pay boost

■ Along with the 23% pay boost U.S. senators voted for themselves this summer, they will receive a hefty increase in pension benefits, according to the National Taxpayers Union.

The NTU estimates a senator's lifetime congressional pension income will jump to just more than $2 million from $1.7 million before the pay raise. Ten senators could collect immediate retirement benefits of more than $100,000 per year, according to the NTU.

"The 23% pay raise turns into a golden parachute for senators," said David Keating, NTU executive vice president.

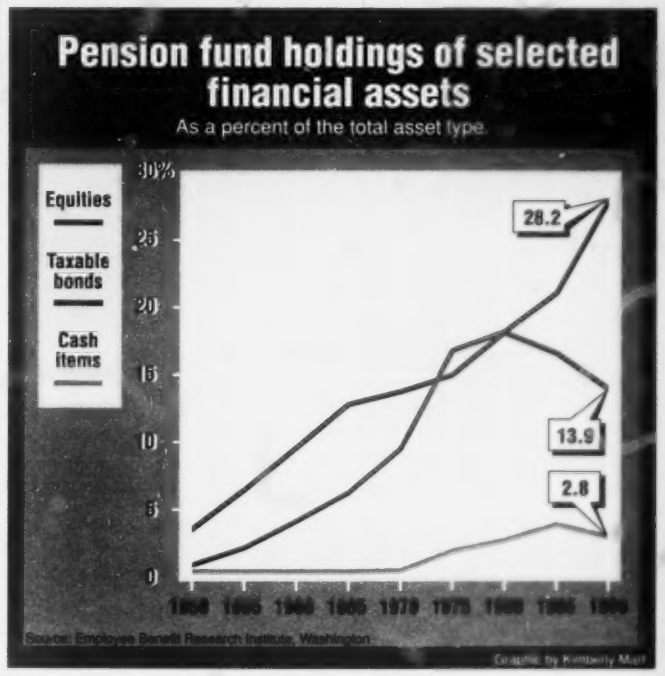
The report noted 72 of the 81 senators included in its study could expect more than $1 million in lifetime benefits, with 36 senators eligible for more than $2 million and 13 eligible for $3 million or more.

According to the report, Sen. Robert Byrd, a West Virginia Democrat and strong advocate of the pay increase, could collect the largest initial annual pension check, $111,795. Sen. Trent Lott, a Republican from Mississippi, tops the list of projected lifetime benefits at $3.9 million, an increase of more than $700,000.

"Many members of Congress could make more in retirement than a typical wage earner could earn in a lifetime," said Mr. Keating.

"Congressional pensions are typically two to three times more generous than those in the private sector and even more generous than pensions for federal workers."

*— Fred Williams*




INTERNATIONAL

## U.K. boardrooms no female haven

■ Fewer than 2% of the total number of directors of U.K. companies in the Financial Times Stock Exchange 100 Index are women, according to research by Pensions Investment Research Consultants Ltd.

As of the end of 1990, only three companies had a woman executive director. Women are somewhat better represented as independent or non-executive directors: 15 hold non-executive directorships on 23 company boards. Two of the women, however, are wives of prominent conservative politicians holding five directorships between them, according to PIRC.

"British company boards are still bastions of male privilege. If companies want to start improving the composition of their boards, they could make a good start by promoting more women. The equal opportunity challenge should be led from the top," said Anne Simpson, finance director of PIRC.

*— Marlene Givant Star*

PUBLIC FUNDS

## Rhode Island treasurer looking to institute changes

■ Rhode Island Treasurer Anthony J. Solomon plans to introduce legislation this fall that would prohibit the governor or the Legislature from offering early retirement to state employees.

An early retirement program offered in 1990 was accepted by about 2,000 of the 19,000 state employees.

An actuary for the $2.6 billion Employee Retirement System of Rhode Island, Providence, estimated the early retirement program will cost taxpayers more than $50 million by the year 2005, according to Mr. Solomon.

The early retirement program saves money in the short term as payrolls decrease, but the savings disappear over time as the retired employees draw pensions, and the salaries of the replacement employees increase, Mr. Solomon said.

Other investment-related provisions of the pension reform legislation include requiring outside audits of the pension fund and prohibiting state agencies from using the retirement system as a bargaining tool in negotiations with state employees.

*— Terry Williams*

JOHN KENNARD

**Rhode Island Treasurer Anthony J. Solomon says early retirement programs will cost the state too much in the future.**

INTERNATIONAL

## U.K. managers to up U.S. holdings

■ A substantial number of U.K. investment managers consider their portfolios underweighted in U.S. stocks and expect to increase their holdings during the next few months, according to a survey by the Ogilvy Adams & Rinehart Ltd., a public relations firm in London.

The survey queried 61 U.K. investment management firms — including in-house investment professionals of institutions such as pension funds and insurers — that have managers specializing in U.S. equities.

The survey found 56% of managers questioned believe they are underweighted in U.S. stocks, while only 10% consider their U.S. weighting too large. It also found that, on average, U.K. institutional investors have 12% of their assets invested in U.S. equities — one percentage point lower than last year.

The survey did not ask managers either about their ideal U.S. stock exposure or which U.S. stocks they planned to buy.

Among the survey findings: 56% of respondents are likely to raise their U.S. holdings in the next few months, while 21% expect to maintain their current levels; 46% anticipate U.S. equities will outperform their other holdings, while 36% expect them to underperform.

Ogilvy Adams & Rinehart also asked investors about their preferred investment strategies, investing criteria and and sources of information.

Among other information gleaned was that earnings per share information is the most important investment criterion to managers questioned. In second and third place were the quality of management at a company and its cash flow.

*— Margaret Price*

MONEY MANAGERS

## Consolidation has global ring

■ A&A Global Inc., with about $100 million under management, has consolidated with Morse, Williams & Co., a domestic investment management firm.

Both firms are in located New York.

"We will become Morse, Williams' global arm," said Donald B. Gimbel, now managing director and global strategist at Morse, Williams who had been president of A&A Global.

Morse, Williams is a bottom-up, growth stock investor, while A&A is a top-down manager. "When you put them together, they present a well-thought-out philosophy of managing money," Mr. Gimbel said.

The consolidation, which was effective July 1, brings Morse, Williams' assets under management to about $300 million, Mr. Gimbel said.

*— Margaret Price*

CONFERENCES

## Jesse Jackson to lead D.C. panel

■ The Rev. Jesse Jackson heads the list of panelists at the National Investment Managers Association's fourth annual issues forum Sept. 12 in Washington.

Titled, "Minority Participation in America's Pension Funds," the forum will be held at the Washington Hilton. It is part of the 21st annual Congressional Black Caucus Weekend.

The program will examine the diversified role of minorities in investment management and the future of their participation.

Other panelists include Bill Hoyt, retired director of investment strategy with IBM Corp.; Denise L. Nappier, city treasurer of Hartford, Conn.; and Bari E. Lewis, senior financial analyst with Texaco Inc.

For more information about NIMA's issue forum, contact Lesyllee M. White, 1899 L St. N.W., 5th floor, Washington, D.C. 20036.

*— Terry Williams*

**The Rev. Jesse Jackson will discuss the role of minorities in investment management at a September conference.**

FINANCING

## Brokerage creates new financial unit

■ Ladenburg, Thalmann & Co. Inc., a New York-based brokerage firm, has formed an integrated financial institutions group that will focus on investment banking services, asset/liability advisory assignments, whole loan and mortgage servicing, and trading and merchant banking transactions.

Kenneth L. Rilander will be managing director. He previously was managing director and head of PaineWebber Inc.'s financial institutions investment banking group.

Associate managing directors are Caleb W. Burchenal and Richard S. Foote, previously vice presidents in the investment banking divisions of Goldman, Sachs & Co. and PaineWebber, respectively, and Timothy S. Drayson, formerly a vice president and the senior whole loan trader at PaineWebber.

Named associate directors are C. Brian Egnatz and Terrance E. Loebs, also from PaineWebber, who will work with Mr. Drayson.

*— Marlene Givant Star*

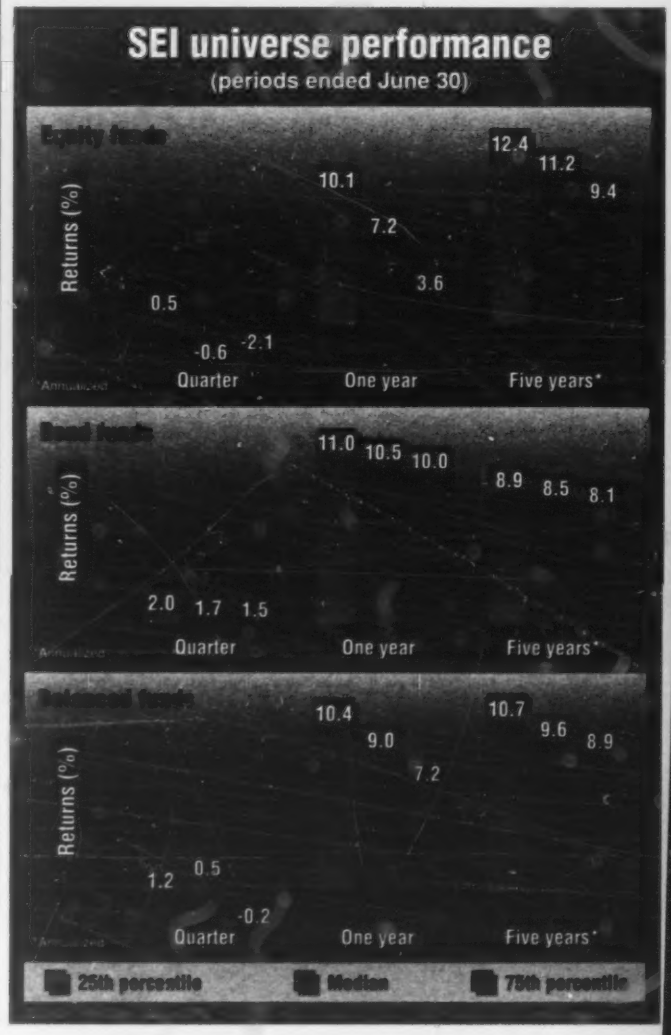
PEOPLE

## Pension slot filled at Inland Steel

■ Mike Rippey was named manager of pensions and investments at Inland Steel Industries Inc.'s $1.6 billion pension fund. He previously was assistant manager of financial planning and analysis, and succeeds Lily May, who was named director of corporate accounting.

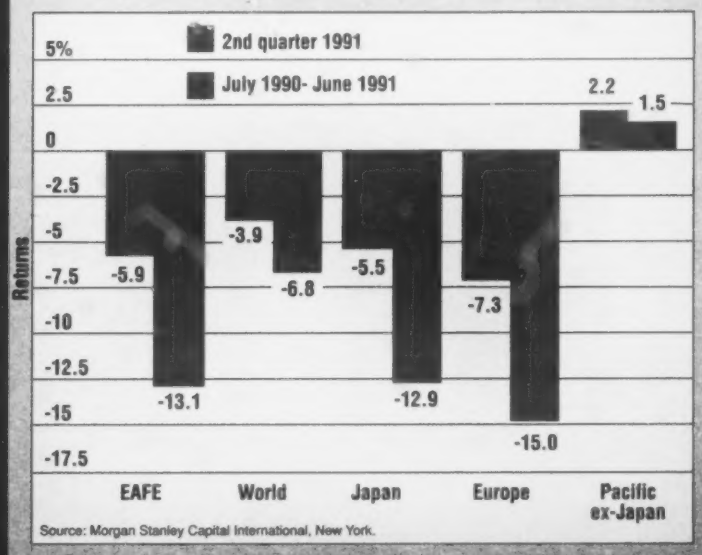
Mr. Rippey will report to Vicki L. Avril, who recently was appointed director of pension investments and administration, following the retirement of Dick Schutter.

*— Sabine Schramm*



## MSCI Worldwide indexes

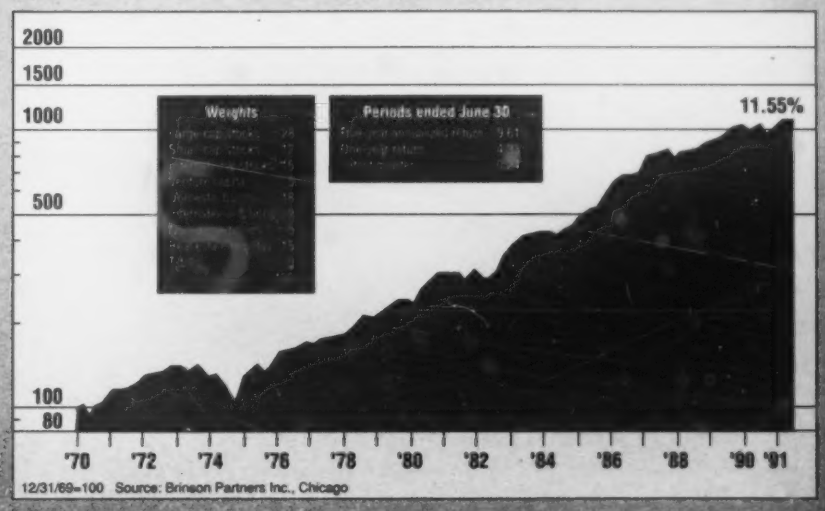
Indexes are in U.S. dollar terms without dividends re-invested




Source: Morgan Stanley Capital International, New York.

## Multiple Markets Index

The Multiple Markets Index is a benchmark for total portfolio returns. It is composed of eight asset classes used by retirement plan executives; it is calibrated to reflect the same degree of risk of the typical pension portfolio; it uses passive fixed policy weights; and it represents the individual asset classes by the broadest and most complete market return data available.




12/31/69=100 Source: Brinson Partners Inc., Chicago

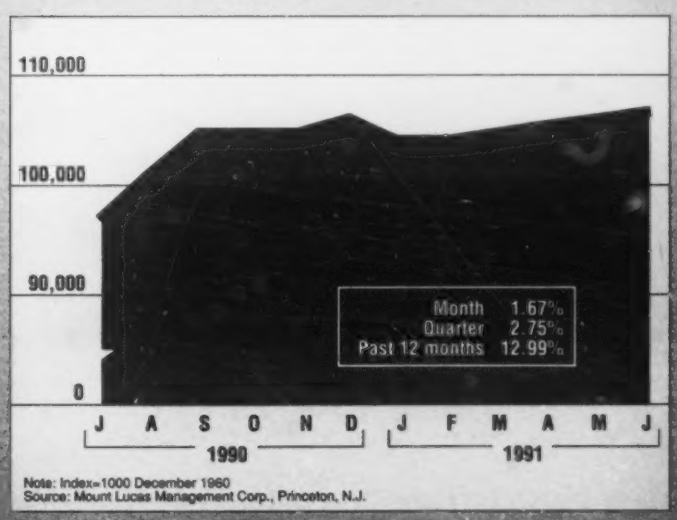
## Russell indexes by economic sector

Second quarter 1991 returns

| | Russell 3000 | Russell 2000 | Russell 1000 |
|---|---|---|---|
| Consumer discretionary | 1.34 | 2.62 | 1.22 |
| Financial services | 0.89 | 5.51 | 0.65 |
| Integrated oils | -2.95 | -4.97 | -2.94 |
| Other energy | -5.52 | -4.18 | -5.63 |
| Technology | -4.27 | -6.73 | -4.06 |
| TOTAL | -0.51 | -1.55 | -0.45 |

## MLM Index

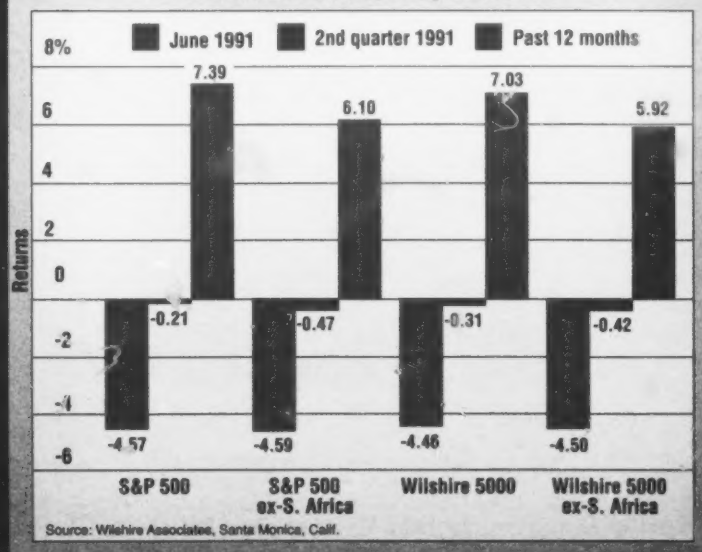
The MLM Index is an unleveraged index used as a benchmark to evaluate commodity futures investments. Periods ended June 30.




Note: Index=1000 December 1980
Source: Mount Lucas Management Corp., Princeton, N.J.

## South Africa Free Index

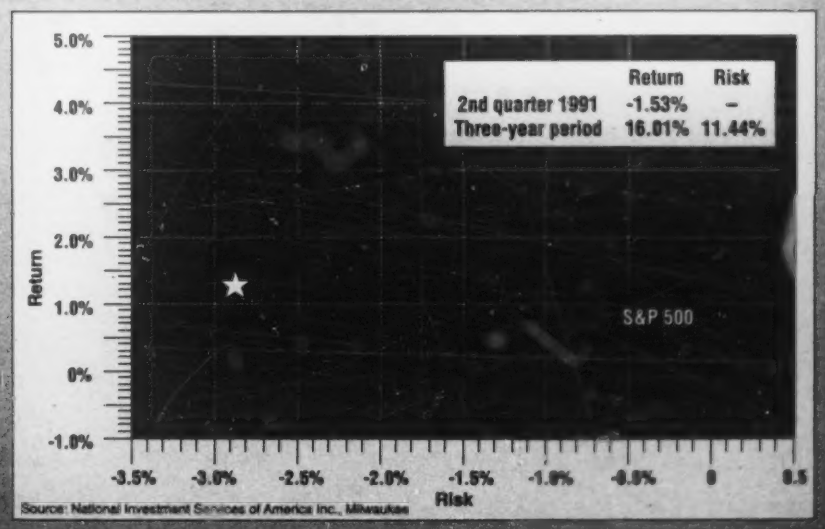
Ex-S. Africa excludes stock of companies with an equity stake in a South Africa business, no replacements.




Source: Wilshire Associates, Santa Monica, Calif.

## An Efficient Index

The Efficient Index is an S&P 500 portfolio optimized for the lowest volatility during the previous two-year period, subject to four constraints. The line represents the return and risk figures for the optimized index relative to the S&P 500 during rolling three-year periods.




Source: National Investment Services of America Inc., Milwaukee

GRAPHICS BY CYNTHIA WATSON

# New valuation of GICs no longer by the book

**By Howard A. Freiman**

The Financial Accounting Standards Board, in an exposure draft expected to be issued by year-end, will likely call for "fair value" accounting for guaranteed investment contracts and other similar contracts. For many GICs that will mean market value adjustments. But it won't mean an absolute end to book-value accounting.

The FASB will prepare broad, general guidance on when fair value equals book value. But it will allow practioners and possibly the American Institute of Certified Public Accountants to decide many of the details.

For contracts with benefit-responsive features — that is, the ability of participants to withdraw before maturity at book value — FASB probably will allow practioners to conclude that in many situations, but not all, fair value equals book value.

FASB also will allow practioners to require market-value adjustments for those contracts issued by banks and insurance companies with deteriorating credit strength.

The impending rules could detract from the usefulness of GICs in a sponsor's defined contribution plan. Sponsors should review their contracts' benefit-responsive features and their issuers' financial health. If necessary, renegotiating contracts with banks and insurance companies may be easier now than after FASB acts.

FASB first addressed book-value accounting in 1980 under Financial Accounting Standard No. 35, requiring defined benefit pension plans to present investments — excluding insurance contracts — at fair value. Practitioners extrapolated this treatment for defined contribution plans.

On Aug. 14, the FASB tentatively reaffirmed its decision to require fair market valuation for all contracts, regardless of issuers or terms. But it didn't answer whether fair value could equal book value. To answer this question one needs to distinguish the differing objectives of defined contribution plan accounting from those of defined benefit plans.

In a defined benefit plan, the ability to pay benefits is the primary focus of the financial statement. In a defined contribution plan, the participant is the primary user of the financial statement. Thus, the focus of financial reporting should be the amount the participant can realize from the account. The accounting goal should be to measure the value of a participant's account accurately. To do this, one should use fair value. FASB defines fair value as the amount a plan could expect to receive from a willing buyer.

GICs and bank investment contracts are, in effect, private loans by pension plans to insurance companies and banks. FASB has consistently stated companies should account for private placements at fair value. This requires the value of the private placement to change as interest rates change.

GICs and BICs have a distinguishing characteristic from other private placements. Certain GICs and BICs are benefit responsive, meaning a participant has the right to require the contract issuer to buy back his or her holdings at book value.

Benefit responsiveness represents a valuable put option for participants. The put option need not be separately valued because the combination of the put plus the private loan equals book value.

In a rising interest rate climate, the fixed-income features of a GIC or BIC would fall in value. But a participant's put option offsets the fall and the contract stays at book value. As interest rates fall, the GIC or BIC rise in value. The participant, however, can't realize more than book value. Thus, fair value may be book value.

Because benefit-responsive contracts in defined contribution plans don't always freely allow withdrawals and transfers, FASB will allow practioners to decide whether some features detract from the conclusion that fair value equals book value. Among them:

- A GIC or BIC allows withdrawals only upon certain events, such as retirement, hardship or termination, while subjecting all other withdrawals to a market-value penalty.
- Contracts withdrawals greater than a certain level incur a market-value adjustment or penalty by the issuer. Such massive withdrawals could occur after a sale of a subsidiary or plant shutdown.
- The plan relies on a portfolio of GICs to satisfy benefit responsiveness. Actuaries can argue that cash flow will be sufficient to pay participants. Their case, however, relies on probabilities and accountants don't always believe in probabilities.

Regardless of the ultimate details, FASB's action will forever change the way participants and accountants view and value GICs. ■

*Howard A. Freiman is senior vice president, Fidelity Management Trust Co., Boston.*

RICHARD STERGULZ

## LETTERS TO THE EDITOR

### Understanding 'guarantee'

■ Many of us in the insurance, consulting and plan sponsor communities are disturbed by your June 10 column, "Take out the 'guaranteed' in GIC name." We're sensitive to the word "guaranteed" and its implications. To suggest otherwise insults fiduciaries who buy the contracts and insurers who underwrite them.

To institutional investors the "guarantee" has never been separated from the question "by whom." Those who purchased Executive Life GICs often said that they were compensated for the added risk by higher rates or that they purchased only short-term contracts because of the higher risk of the issuer. Few insurance companies or fiduciaries in this highly competitive marketplace agreed with that risk assessment and were quite vocal in the marketplace. Certainly *Pensions & Investments* is in a position to know this. Your reporters have heard several presentations over in recent years on this topic.

The insurance industry has never promoted the GIC as a commodity nor have its members presented the product as guaranteed by any entity other than the company whose name is on the contract.

**C. Robert Henrikson**
Senior vice president
Pensions national accounts
Metropolitan Life Insurance Co.
New York

### Accentuate GICs positives

■ Your June 10 column on the GIC guarantee is, unfortunately, consistent with those that accentuate the negative and ignore the positive. It strikes me that a quality industry magazine should concentrate on how well GICs have served as a funding vehicle for plans over the past 20+ years. This approach, vis-a-vis highlighting the failure of one company, whose activities were not supported by the industry, would be far more beneficial to the buying public.

Fortunately, the purchase of GICs by astute managers continues. It is still a strong, viable and respected funding vehicle that looks to the strength of the company backing it for its "guarantee."

**Robert A. Bonner**
Vice president-pensions
Sun Financial Group
Wellesley Hills, Mass.

### Unfair to insurers

■ I believe you have done a disservice to the pension industry and insurance industry June 10 column on the GIC guarantee.

I realize the failure of Executive Life is and should be a matter of concern to your readers. On the other hand, GICs have now been around for 20 years and have served their constituency well. There is close to $200 billion of them now "guaranteed" by various insurance companies. These are companies that have been in the business for up to 100 years or more and that make "guarantees" all the time without being called into question. Their record is a long and a good one.

*Accordingly, I think that to "bash" the product and its purveyors based upon one difficult experience is excessive and can help only in sensationalizing an exceptional and unfortunate situation, and even when that situation has not yet been fully resolved in terms of the ultimate disposition of the guarantees made by that carrier.*

Guarantees have always been only as good as the guarantor, but in the insurance industry those guarantees have held up well, and that applies to GICs as well.

**Joel C. Cohan**
Senior consultant
Marketing consultation group
Life Insurance Marketing and Research Association Inc.
Farmington, Conn.

### Really a $2.51 billion firm

■ Please correct our profile in your May 20 directory of investment advisers. The amount of U.S. institutional, tax-exempt assets should read $2.51 billion instead of $3.064 billion. All assets are discretionary.

**Nancy Clark**
Vice President
Eagle Asset Management Inc.
St. Petersburg, Fla.

### 'Median manager' is useful

■ Despite a July 22 commentary from Richards & Tierney Inc. critical of their use, median manager returns are appropriate benchmarks, provided they are explained through analysis of components that affect manager performance. Portfolios achieve their returns in drastically different ways. In the case of equities, one has to analyze allocation between stocks and cash, risk, industry weightings, and investment style.

The primary element of manager performance is allocation to stocks and cash. Managers commonly raise or lower cash positions based on market expectations. This allocation is important when comparing an index return to a median return (including equity and cash), because the index is always fully invested, while the median return includes the impact of short-term investments. For example, from our database of 1,300 portfolios we examined five that produced returns close to the median over a 10-year period and found their equity positions ranged from a low of 60% to a high of 100%.

The second key component of manager performance is the amount of risk of a portfolio. Risk should be examined on both a total-portfolio (including equities and cash) and equities-only basis.

Disclosure of the securities within the median manager portfolios isn't necessary for a proper evaluation of manger performance, despite the contention in the commentary. Clients can better determine whether a particular benchmark (median manager or an index) is appropriate for measuring their portfolios' performance by using such median manager style comparisons price-earnings ratios, dividend yield, market capitalization, and market-to-book ratios. These characteristics act as proxies for the underlying securities in the median manager's portfolio, so a client can easily construct a similar portfolio by investing in equities displaying those same characteristics.

**Donald H. Korytowski**
Vice president-investment analytics
**Susan E. Hunter**
Manager-research, client communication
SEI Corp.
Chicago

### More risk of more runs

"Mutual Benefit's investment woes resemble many others within the (life insurance) industry — and therein lies the problem. This situation will be more difficult for the industry to both explain and distance itself from than the First Executive situation was. . . . (T)he industry and regulators lack a clear plan or meaningful tools to improve waning confidence in the industry. . . . We believe the risk of disintermediation (risk of a run) has accelerated. We do not see a clear method that would restore or offset deteriorated confidence in the industry."

*James F. Guenther*
*Duff & Phelps Inc., Chicago*
*excerpted from its* Credit Decisions

# Bank relations top priority

## Treasury managers focus hard on industry dilemmas

**By Fred Williams**

Corporate treasury managers are turning their attention to bank relations and away from broader corporate finance and cash forecasting activities.

Treasury managers almost tripled the amount of time they devote to bank relations, 14% vs. 5% a year ago, *Pensions & Investments*' 1991 Cash Management Survey shows.

Time spent on broader corporate finance and cash forecasting, meanwhile, each decreased 10 percentage points.

Respondents to 1991's survey are concerned about risks associated with bank fiscal soundness, rising FDIC fees (which affect how corporate executives interact with their banks), industry contraction and credit quality concerns.

For example, 80% of respondents say they are paying more attention to bank soundness this year than they did last year.

One major concern is the Federal Reserve Board's proposal to begin charging banks for daylight overdrafts. A daylight overdraft occurs when an institution sends funds over the Fedwire in excess of the balance in its reserve or clearing account or sends more funds over a private wire network than it has received.

Although 60% of the respondents said it is appropriate for banks to pass on daylight overdraft charges to their customers, a whopping 90% said instituting the charges won't eliminate the problem of daylight overdrafts.

But one treasury manager complained "customers should not be penalized for the bank's inability to manage the funds entrusted to it." And another said the charges should be passed on only "if banks (also) give credit for money temporarily invested with the bank in excess balances."

Richard Bort, president of Richard Bort & Associates, a Sherman Oaks, Calif., cash management consultant, said the 25-basis-point charge being proposed by the Fed "is insufficient to induce a change of behavior."

"Most daylight overdraft problems are caused by a handful of banks and are not because what customers are doing but because of what the bank is doing. The charge is an annoyance charge more than anything."

Most companies don't run daylight overdrafts, he said. And if a large corporation needs to move a large sum of money, the company likely would do so even if it is charged a fee, Mr. Bort said.

As a result, he said, a market for hourly loans from other corporations with surplus cash could develop.

Meanwhile, corporations continue to move toward fees to pay bank charges rather than compensating balances.

Respondents are paying 71% of bank charges in cash in 1991, vs. 60% in 1990 and 1989; they said they intend to increase the amount paid through fees to 77% next year.

"All things being equal, it is cheaper for corporations to pay their banks fees for services. If they have excess balances, it is to their advantage to pull the excess and invest it," said Mr. Bort.

Cash and treasury management officials also expressed concern about rising banking costs.

Among the services cited most often as costing more in 1991 than in 1990 were account maintenance, lockbox services, wire transfers and disbursement services. Interestingly, FDIC premium increases were listed more frequently than typical bank services such as credit, item processing, balance reporting and check processing.

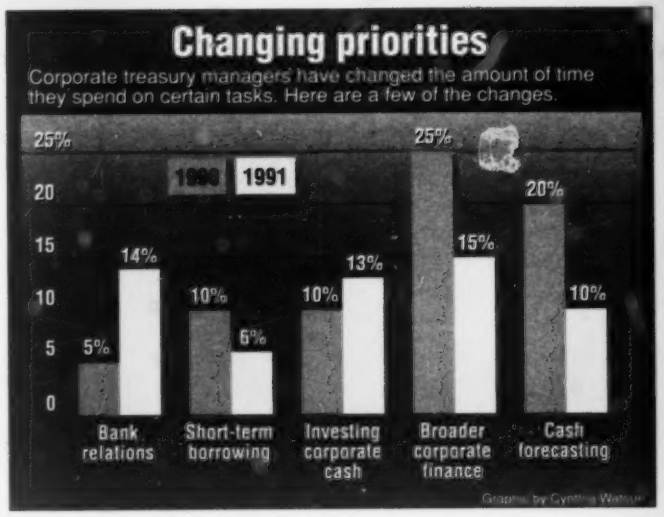
Most respondents said no bank services became more competitively priced during the past 12 months; some cited controlled disbursement services and lockbox services.

Anthony Carfang, president of Treasury Strategies Inc., a Chicago treasury management consulting firm, said FDIC assessments have become "exorbitant."

He said because the assessment has grown so large — to about 23 cents per $1,000 in insured deposits, based on the bank's average ledger balance — banks are passing it all through to their customers.

"It's not a back breaker, but many treasurers feel they are being asked to help pay for the

*See* **Treasury** *on page 35*




HOW A BILLION DOLLARS IS MAKING A WORLD OF DIFFERENCE.

# Church sued over fund investment criteria

By Sabine Schramm

The $1.8 billion Board of Pensions of the Evangelical Lutheran Church of America and the Evangelical Lutheran Church of America are being sued by three ministers alleging the board breached its fiduciary responsibility by using social criteria to determine its investment policies.

In the suit, filed July 23, the Revs. Thomas Basich and Matthew Basich, both of the Advent Lutheran Church, Roseville, Minn., and the Rev. Judith Boal of Beaver, Pa., are asking a Minnesota district court to rule on the prudence of socially directed investments by the Board of Pensions, portability of their individual pension assets and a separation of the management of the church and the church pension fund.

The 403(b)(9) plan offers 12 separate investment funds of four basic types, including the Social Purpose Funds and the South Africa Free Funds, activated July 1 and subject to social screens. (The Alternative Investments Funds and the Predecessor Funds are not subject to social screens. The Predecessor Funds are assets carried over from the 1988 merger of the American Lutheran Church, the Lutheran Church of America and the Association of Evangelical Lutheran Churches and are closed to further investment.)

According to John Harris of Faegre & Benson, Minneapolis, and attorney for the Evangelical Lutheran Church and the Board of Pensions, members of the plan are in the process of electing in which fund they want to be invested.

If they do not choose, their assets default to the South Africa Free Fund.

"The key point is nobody is invested in a screened fund if they don't want to be there," said Mr. Harris. "They can opt for a non-screened fund."

Robert C. Bell, attorney for the Basiches and a partner in Peterson, Bell, Converse & Jensen, Roseville, Minn., said investments are business decisions, but pension fund officials are using social considerations to make business decisions.

According to Mr. Bell, even in the Alternative Investment Funds the pension board can choose a socially oriented investment over another if in all other respects the investment is equal.

He said, however, it is "impossible" for all things to be equal.

Mr. Harris, however, said the Department of Labor recognizes social considerations can play a role where economic considerations are equal.

In both the Alternative and Predecessor funds, the board policy is to go with South Africa-free investments when investment opportunity is equal.

Tim Smith, executive director of the Interfaith Center on Corporate Responsibility, said he believed the board had divested funds prudently on both social and financial grounds. He added social responsibility, part of the mission and purpose of the church, is important to its identity.

The Basiches asked the board in April if they could take their assets out of the pension fund. The board refused because the Basiches did not qualify for lump-sum withdrawal under the provisions of the fund charter.

Part of the suit asks for a "portability plan," which will allow "any beneficiary to withdraw funds credited to the beneficiaries' account, plus interest or other accumulations."

Beneficiaries should have the right to take out their funds and put them in a plan that will give them better returns, according to Mr. Bell.

The policy for divestment in companies with direct or strategic indirect investment in South Africa follows a mandate of the church's Board of the Trustees. According to Mr. Bell, the Board of Pensions, once an independent entity, now is dominated by the church.

The lawsuit filed by the Basiches asks the Minnesota court to direct the church to amend its Articles of Incorporation so the Board of Pensions would be independent and further investments be made "pursuant to the prudent man rule" and not church mandates. ■

# Treasury

*Continued from page 34*

savings and loan bailout," said Mr. Carfang.

Respondents also listed rising FDIC assessments among the most important issues facing cash managers in the next two years.

Other important issues cited are the continued implementation of electronic data interchange and electronic funds transfers in vendor payments; the proposal to charge banks for daylight overdrafts and bank problems such as failures, consolidation, capitalization and safety.

*P&I*'s survey also showed:

- The percentage of treasury managers hedging their borrowings against interest rate volatility increased to 40% from 31% in 1990 and 11% in 1989.
- The average amount of investible cash rose almost 50% — to $143.8 million this year from $97.5 million in 1990. Some 96.3% of respondents say cash is invested by internal staff. Not surprisingly, respondents increased — to 13% from 10% — the amount of time spent on investing corporate cash.
- The number of corporations with written investment objectives and guidelines remained steady at 90%.
- Respondents are becoming more dissatisfied with the performance benchmarks they use to evaluate their cash managers. This year, only 30% said they are very satisfied, down from 34% last year. ■

Recently, The Equitable further strengthened its financial base through a $1 billion investment from AXA, one of Europe's largest insurers. The global alliance created by this investment gives both companies an unprecedented opportunity to expand their worldwide presence and an almost unlimited potential for growth.

**THE TIMING IS RIGHT.**

The need for stability in the insurance and financial services industries has never been more important. Globalization and deregulation are increasing more quickly than ever, and worldwide investing on a 24-hour basis has become a reality.

And now The Equitable and AXA are strongly positioned to take maximum advantage of these changes.

**THE FIT IS RIGHT.**

A major factor that will contribute to the success of this new association is the excellent fit between the two companies. In insurance operations, AXA relies heavily on an agency system to deliver its products; The Equitable's sales force of over 9,000 agents is recognized as one of the most productive and professional in the U.S. insurance business.

We both have strongholds in insurance markets that don't overlap: The Equitable in individual life and annuities in the U.S., and AXA primarily in property and casualty in Europe. And since the U.S. is the world's largest insurance market and the European Community is expected to become the world's largest unified market after 1992, the future looks bright indeed for this new global alliance.

In investment operations, The Equitable and AXA should be an especially powerful force. Together we manage well over $180 billion in assets, which, if combined, would create one of the world's largest institutional investors. And when you add AXA's investment knowledge and distribution capabilities in Europe to The Equitable's in the U.S., you open doors for countless joint investment opportunities all over the world.

**THE PHILOSOPHY IS RIGHT.**

Yet another big plus to this association is the philosophical fit of the two companies. Both consist of people who are committed to excellence, take pride in their professionalism, and are dedicated to building great financial institutions by providing quality service to policyholders and investment clients. These are people who will make the most of new opportunities.

At The Equitable, we're looking forward to a world of opportunities. And a future filled with growth for us, AXA and of course, our clients.

To learn more, please write to Richard H. Jenrette, Chairman and CEO, or Joseph J. Melone, President and COO, at The Equitable, 787 Seventh Avenue, Dept. A, New York, NY 10019.

THE EQUITABLE

STRENGTH IN NUMBERS

© 1991 The Equitable Life Assurance Society of the United States, NY, NY 10019

# GIC/BIC rates down from 2nd quarter peak

By Fred Williams

Rates on guaranteed investment contracts may have peaked during the second quarter as Federal Reserve easing and a flattening yield curve have dropped rates nearly 100 basis points since the end of June.

John Knight, president of Lamberson Knight Inc., a Short Hills, N.J., GIC brokerage, said rates on five-year contracts approached 9% near the end of June but have since fallen off to nearly 8%. Further Fed easing could put additional pressure on GIC rates, already hit hard by credit concerns and problems in the insurance industry.

Peter Bowles, president of Fiduciary Capital Management Inc., Woodbury, Conn., said as the first half of 1991 ended, the GIC/BIC market "could best be described as active and competitive with rates at, or close to, their highest level all year."

BIC rates were most competitive, said Mr. Bowles, for maturities of three years or less. "Until a final ruling is made on whether BICs will continue to receive FDIC coverage and/or if premiums will be charged, BIC rates are likely to continue to be governed by this non-market issue," he said.

Mr. Knight said investor concerns have focused on credit quality; a flight to quality started in 1990 and continued through the second quarter, with many investors limiting their placements to triple-A rated carriers.

He said there has been some "overreaction" to problems in the insurance industry but not by large plans that follow the market. "It's the smaller 401(k) plans who sometimes panic after they hear something has happened to a carrier and then start getting questions from plan participants," he said.

The following insurance company rate quotations on representative five-year, single-deposit, simple-interest, $1 million GICs were provided by Lamberson Knight Inc. and GIC Inc., Beaverton, Ore. The first number is for late June; the second for late March:

- John Alden Life Insurance Co., Miami: 8.9% vs. 8.65%.
- Allstate Life Insurance Cos., Northbrook, Ill.: 8.35% vs. 8.38%.
- Canada Life Assurance Co., Toronto: 8.23% vs. 8.44%.
- CNA Insurance Co., Chicago: 8.24% vs. 8.29%.
- Confederation Life Insurance Co., Atlanta: 8.63% vs. 8.55%.
- Connecticut Mutual Life Insurance Co., Hartford: 8.38% vs. 8.45%.

Crown Life Insurance Co., Toronto: 8.59% vs. 8.3%.

- Hartford Life Insurance Co., Hartford: 8.23% vs. 8.3%.
- John Hancock Mutual Life Insurance Co., Boston: 8.25% vs. 8.3%.
- Life Insurance Co. of Georgia, Atlanta: 8.35% vs. 8.25%.
- Life Insurance Co. of Virginia, Richmond: 8.39% vs. 8.44%.
- Lincoln National Life Insurance Co., Fort Wayne, Ind.: 8.23% vs. 8.13%.
- New York Life Insurance Co., New York: 8.4% vs. 8.4%.
- Northwestern National Life Insurance Co., Minneapolis: 8.44% vs. 8.42%.
- Ohio National Life Insurance Co., Cincinnati: 8.59% vs. 8.54%.

William M. Mercer Asset Planning Inc., Deerfield, Ill., surveys insurance companies for rate quotations and provided the following summary of various bullet GICs for June 1991:

- Three-year, $1 million, compound: high, 8.17%; low, 7.31%; average, 7.77%.
- Three-year, $1 million, simple: high, 8.51%; low, 7.28%; average, 7.91%.
- Five-year, $1 million, compound: high, 8.8%; low, 7.85%; average, 8.27%.
- Five-year, $1 million, simple: high, 9.25%; low, 7.85%; average, 8.41%.
- Seven-year, $1 million, compound: high, 9.09%; low, 8.07%; average, 8.51%.
- Seven-year, $1 million, simple: high, 9.61%; low, 8.07%; average, 8.71%.
- Three-year, $5 million, compound: high, 8.24%; low, 7.34%; average, 7.83%.
- Three-year, $5 million, simple: high, 8.51%; low, 7.31%; average, 7.95%.
- Five-year, $5 million, compound: high, 8.85%; low, 7.95%; average, 8.33%.
- Five-year, $5 million, simple: high, 9.25%; low, 7.95%; average, 8.47%.
- Seven-year, $5 million, compound: high, 9.14%; low, 8.17%; average, 8.58%.
- Seven-year, $5 million, simple: high, 9.61%; low, 8.17%; average, 8.78%.

Mercer also surveys banks for rate quotations on their guaranteed instruments. Rate quotes for one- and three-year bullet BICs for June were:

- One-year, $1 million, compound: high, 6.7%; low, 5.46%; average, 6.19%.
- One-year, $1 million, simple: high, 6.99%; low, 5.46%; average, 6.25%.
- Three-year, $1 million, compound: high, 8.07%; low, 6.95%; average, 7.67%.
- Three-year, $1 million, simple: high, 8.2%; low, 6.96%; average, 7.64%.
- One-year, $5 million, compound: high, 6.7%; low, 5.77%; average, 6.26%.
- One-year, $5 million, simple: high, 7.04%; low, 5.77%; average, 6.34%.
- Three-year, $5 million, compound: high, 8.12%; low, 7.13%; average, 7.72%.
- Three-year, $5 million, simple: high, 8.25%; low, 6.94%; average, 7.69%.

Schmidt Management Co., a GIC market research firm in Tulsa, Okla., has developed a guaranteed product performance measurement index. The Schmidt GIC composite index approximates the return of a continuous, equally weighted investment in one- to 10-year original maturity GICs. (The index shows returns, not rates.)

Total returns for the Schmidt composite for the quarter and year ended June 28 were 2.2% and 9.3%, respectively. The Standard & Poor's 500 Stock Index returned −0.2% and 7.5%; the Merrill Lynch Government/Corporate Bond Master Index, 1.7% and 10.5%; and 90-day Treasury bills, 1.4% and 6.7%. ■

# Insurance backlash

## Legislators calling for oversight entities

Lawmakers are forging legislation to defend against insurance company insolvency and protect workers and retirees whose savings are invested with insurers.

Rep. John D. Dingell, D-Mich. and Sen. Howard M. Metzenbaum, D-Ohio, are fashioning separate proposals to establish an independent insurance regulatory entity that would set national standards for insurers.

Meanwhile, Reps. William H. Hughs, D-N.J., and Sherwood L. Boehlert, R-N.Y., have introduced a bill designed to protect individual annuity holders.

Rep. Dingell's proposed Federal Insurer Solvency Corp. would develop, implement and enforce national standards for insurance company solvency. The entity would be funded by assessments on insurers.

Implementation of the standards would be handled by individual state insurance departments.

Sen. Metzenbaum's proposal establishes an Insurance Regulatory Commission setting minimum federal standards.

But Sen. Metzenbaum's bill goes a step further by creating a national guarantee fund that would replace the existing state funds.

The Hughs-Boehlert bill, the Retirement Annuity and Protection Act of 1991, H.R. 3210, would safeguard annuitants and address gaps in state insurance protection by: requiring the Pension Benefit Guaranty Corp. to review pension plan terminations and to restrain imprudent annuity contracts; giving state insurance commissioners authority to oversee the purchase of annuities by plan sponsors and ensure state guaranty funds are sufficient; and disclosing to participants the nature of an insurance company's investments and financial condition. ■

Carl Fields Got
A Little Something
Extra In His Last
401(k) Statement.
A Sex Change.

Carla Fields
1760 W. Wrightwood, Apt. 306
Chicago, IL 60614

At the Harris Bank, we realize mistakes mean problems for our customers. That's why our recordkeeping department provides accurate and timely service. Without changing anyone's gender. For more information, call Tony Sabos at 312-461-2366.

HARRIS BANK

©1991 Harris Trust and Savings Bank, 111 W. Monroe, P.O. Box 755, Chicago, IL 60690.